

S
354.85
L72SA
1982
C. 2

MONTANA STATE LIBRARY
1515 F. ST. N. W.

STATE OF MONTANA
Report to the Legislature
OFFICE OF THE STATE AUDITOR
Report on the Examination
of Financial Statements
Fiscal Years Ended June 30, 1981 and 1982

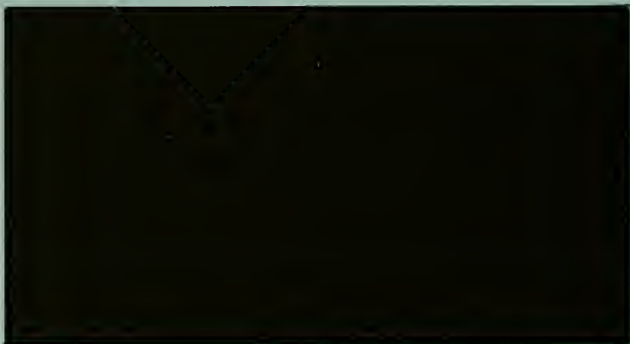


OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

Montana State Library



3 0864 1003 2677 9




STATE OF MONTANA

Report to the Legislature

OFFICE OF THE STATE AUDITOR

Report on the Examination
of Financial Statements

Fiscal Years Ended June 30, 1981 and 1982



Digitized by the Internet Archive
in 2010 with funding from
Montana State Library

<http://www.archive.org/details/stateofmontanaoffi1982mont>

TABLE OF CONTENTS

	<u>Page</u>
Elective and Administrative Officials	iii
Summary of Recommendations	iv
Comments	1
General	1
Background	1
Expenditure Accruals	2
System Development Accrual	2
Services and Supplies	3
Central Payroll Revolving Fund	3
Police/Firemen Pension Funds	4
Central Payroll Reimbursements	5
State Compliance	6
Internal Control Review	7
Prior Audit Recommendations	9
Federal Compliance	9
Auditor's Report and Financial Statements	
Auditor's Report	10
Combined Balance Sheet, All Fund Types and Account Groups, June 30, 1982	12
Combined Statement of Revenues, Expen- ditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Fund Types, For the Fiscal Year Ended June 30, 1982	13
Combined Statement of Revenues, Expen- ditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Fund Types, For the Fiscal Year Ended June 30, 1981	14

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Notes to the Financial Statements	15
Schedule of Federal Assistance Receipts and Disbursements, For the Two Fiscal Years Ended June 30, 1982	18
Agency Reply	19

OFFICE OF THE STATE AUDITOR

ELECTIVE AND ADMINISTRATIVE OFFICIALS

E.V. "Sonny" Omholt	State Auditor, Elected
Roy L. Phelps	Deputy State Auditor
Josophie A. Isaak	Administrator Fiscal Management and Control
Kathleen M. Behm	Administrator Central Payroll
R.G. "Rick" Tucker	Chief Deputy Securities Commissioner
Norma E. Seiffert	Chief Deputy Insurance Commissioner

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the State Auditor is included in the back of this report.

	<u>Page</u>
1 Periodically reconcile the central payroll revolving account.	4
<u>Agency Reply:</u> Concur. See page 20.	
2A Record insurance premium tax revenue when received.	5
<u>Agency Reply:</u> Will implement. See page 20.	
2B Accrue police/firemen pension fund expenditures at year-end in accordance with generally accepted accounting principles.	5
<u>Agency Reply:</u> Will implement. See page 20.	
3 Determine actual costs to process non-general fund payroll and develop a reasonable allocation method for recovering costs from agencies.	6
<u>Agency Reply:</u> Concur. See page 20.	
4 Comply with section 17-3-211, MCA, and seek legislation allowing a single distribution of forest reserve funds after the final amount is know.	7
<u>Agency Reply:</u> Concur. See page 21.	

COMMENTS

GENERAL

We performed a financial compliance audit of the Office of the State Auditor for fiscal years 1980-81 and 1981-82. The objectives of the audit were to: (1) determine if the office's financial statements present fairly financial position on July 30, 1982 and the results of operations for the two fiscal years then ended; (2) determine if the office complied with applicable laws and regulations; and (3) make recommendations for the improvement in the management and internal controls of the office.

We thank the State Auditor and his staff for their cooperation and assistance during the audit.

BACKGROUND

Article VI of the Montana Constitution establishes the Office of the State Auditor. The State Auditor is an elective official holding office for a term of four years. Duties of the State Auditor are assigned by law.

In addition to fiscal duties, the State Auditor is also the Ex Officio Commissioner of Insurance and Securities. The State Auditor is a member of the Board of Land Commissioners, Board of State Canvassers, and the Board of Hail Insurance.

The office of the State Auditor is divided into five divisions. The Administrative Support Division provides centralized administrative services for the office.

The Fiscal Management and Control Division operates the centralized warrant writing system for the state of Montana. The division processes state warrants for direct mailing.

The Central Payroll Division operates the uniform payroll system for state government. The division processes payroll information for all state agencies except university system units and the vocational technical centers.

The Insurance Division administers the provisions of state insurance laws. The division issues certificates of authority to sell insurance in the state of Montana and licenses insurance agents. The division is also responsible for the collection of taxes on insurance premiums and the periodic examination of domestic insurance companies.

The Securities Division administers the provisions of the Securities Act of Montana. The division registers securities offered for sale in the state of Montana and registers security salesmen, broker-dealers, and investment advisors active in the state. The division exchanges information with other states and the Securities Exchange Commission regarding security activities and promoters.

EXPENDITURE ACCRUALS

System Development Accrual

At the end of fiscal year 1979-80 the State Auditor's Office improperly accrued expenditures of \$183,211. The accrual was for development of the Payroll, Personnel, Position control (PPP) data processing system. State accounting policy requires the accrual of interagency service agreements for systems development at year-end. Services relating to the amount accrued were provided in fiscal year 1980-81. The related expenditure should have been recognized in fiscal year 1980-81 in accordance with generally accepted accounting principles (GAAP).

The financial statements have been adjusted to properly present Central Payroll Division expenditures.

Services and Supplies

During both fiscal years of the audit period, the Office of the State Auditor accrued expenditures for supplies or services not received by year-end. Under GAAP supplies and services should be recognized as an expenditure in the year received. State accounting policy allows the accrual of purchase orders outstanding at year-end even though the related supplies or services have not been received.

The accrual of expenditures for services and supplies not received overstates accrued expenditures by \$7,700 at fiscal year-end 1982. The financial statements have been adjusted to properly present expenditures and accrued expenditures.

CENTRAL PAYROLL REVOLVING FUND

During the audit period, the central payroll revolving account had not been properly reconciled. At fiscal year-end, the revolving account had an accountability for advances balance of \$6,686,494. A substantial portion of this amount is net pay due employees at June 30, 1982. The remainder represents withholdings, deductions, and payroll taxes received from state agencies that have not been paid at year-end. Central Payroll Division should periodically reconcile the accountability for advances control account to ensure amounts received from agencies are properly paid to the appropriate agency or provider.

RECOMMENDATION #1

WE RECOMMEND THE OFFICE OF THE STATE AUDITOR PERIODICALLY RECONCILE THE CENTRAL PAYROLL REVOLVING ACCOUNT.

POLICE/FIREMEN PENSION FUNDS

The State Auditor's Office does not record revenue relating to fire and police pension fund distributions until the fiscal year following receipt. In addition, related fire and police pension distributions represent a liability at fiscal year-end and should be estimated. Expenditures should be accrued in the estimated amount.

A portion of insurance premium taxes received by the office of the State Auditor is distributed annually to the Public Employees' Retirement System, the Department of Labor and Industry, Division of Workers' Compensation, and local government units. Payments are in support of police and firemen pension funds, firemen disability fund, and workers' compensation for volunteer firemen. Each year the office estimates the amount necessary for distribution in the following fiscal year. The amount estimated is retained in the State Auditor's uncleared collections account. The estimate is recorded as receipts collected in advance at fiscal year-end.

Following fiscal year-end, the amounts of Police and Firemen's Pension distributions are calculated. Receipts collected in advance are then recorded as revenue to the Special Revenue Fund. The excess of the estimate over the required distribution is recorded as an expenditure of the Special Revenue Fund and revenue in the General Fund. The distributions are then made from the Special Revenue Fund.

Under the modified accrual basis of accounting, revenue is recognized when it becomes both measurable and available. Insurance premium taxes recorded as receipts collected in advance meet both criteria and should be recorded as revenue in the fiscal year received.

At fiscal year-end, the State Auditor's Office has a liability for police and firemen pension payments to be paid to the Public Employees' Retirement System and local government units prior to September 1st of the following fiscal year. Accordingly, the expenditure should be accrued at fiscal year-end.

The financial statements have been adjusted to properly present premium tax revenue and fire and police pension distributions.

RECOMMENDATION #2

WE RECOMMEND THAT THE OFFICE OF THE STATE AUDITOR:

- A. RECORD INSURANCE PREMIUM TAX REVENUE WHEN RECEIVED.
- B. ACCRUE POLICE/FIREMEN PENSION FUND EXPENDITURES AT YEAR-END IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

CENTRAL PAYROLL REIMBURSEMENTS

The Central Payroll Division (CPD) charges agencies a service fee for processing non-general fund payroll. The division has not determined the actual cost to process non-general fund payroll and therefore the fees charged do not reflect actual processing costs.

Central Payroll Division charges agencies an amount sufficient to pay data processing costs of the Central Payroll Division.

Expenditures from the central payroll operation revolving account are allocated among state agencies through the Statewide Cost Allocation Plan (SWCAP). Revolving account costs are included in the SWCAP because the direct charges are not allocated on a logical basis and therefore cannot be charged directly to federal programs. Under the current system payroll service fees related to federal programs can only be recovered through indirect costs.

To properly recover costs of processing non-General Fund payroll, Central Payroll Division should determine actual costs to process non-General Fund payroll, then allocate these costs to agencies on a reasonable basis. Payroll service costs could then be charged directly to federal programs and eliminated from SWCAP allocations.

RECOMMENDATION #3

WE RECOMMEND THE STATE AUDITOR DETERMINE ACTUAL COSTS TO PROCESS NON-GENERAL FUND PAYROLL AND DEVELOP A REASONABLE ALLOCATION METHOD FOR RECOVERING COSTS FROM AGENCIES.

STATE COMPLIANCE

In fiscal year 1981-82 the Office of the State Auditor did not comply with section 17-3-211, MCA, which requires distribution of federal forest reserve funds within thirty days of receipt. Federal forest reserve funds are distributed in two payments, an estimated

amount in October and the final payment in December. In fiscal year 1981-82 the office made one distribution to counties in December. The change in policy was made to eliminate errors in payments to counties resulting from inaccuracies in estimated payments calculated by the U.S. Forest Service.

The Office of the State Auditor should comply with section 17-3-211, MCA, or seek legislation to allow for a single distribution after the final amounts are known.

RECOMMENDATION #4

WE RECOMMEND THE OFFICE OF THE STATE AUDITOR COMPLY WITH SECTION 17-3-211, MCA, AND SEEK LEGISLATION ALLOWING A SINGLE DISTRIBUTION OF FOREST RESERVE FUNDS AFTER THE FINAL AMOUNT IS KNOWN.

INTERNAL CONTROL REVIEW

We have examined the financial statements of the Office of the State Auditor for the two fiscal years ended June 30, 1982. We issued our opinion dated October 1, 1982 on these statements. As part of our examination, we made a study and evaluation of the system of control of the Office of the State Auditor. Our study evaluated the system as required by generally accepted government auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. revenue,
2. payroll,
3. expenditures,
4. cash, and
5. plant, property, and equipment.

Our study included the control categories listed above. Through our study, we determined the nature, timing, and extent of our audit procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole. Our evaluation disclosed no condition that we believe to be a material weakness of internal control.

The management of the Office of the State Auditor is responsible for establishing and maintaining a system of control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the

system. Accordingly, we do not express an opinion on the system of controls used by the Office of the State Auditor.

The preceding three paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon issuance to the Legislative Audit Committee, is a matter of public record.

PRIOR AUDIT RECOMMENDATIONS

The prior audit of the Office of the State Auditor was conducted for the two fiscal years ended June 30, 1980. The report contained 20 recommendations for improvement of agency operations. The office concurred with all 20 recommendations.

We reviewed the status of prior audit recommendations and determined that the Office of the State Auditor has implemented 15 and partially implemented 1 of the recommendations. The remaining 4 recommendations are no longer applicable.

FEDERAL COMPLIANCE

Our audit of federal moneys was performed in accordance with audit requirements in the U.S. Office of Management and Budget, Circular A-102, Attachment P. We found the Office of the State Auditor in substantial compliance with the terms of agreements and those provisions of federal law and regulations relating to the distribution of federal forest reserve funds that could have a material effect on the financial statements. Our tests for the allowability of charges to federal grants were performed on a sample of expenditures. None of the items tested were questioned costs. Nothing came to our attention indicating possible non-compliance in items not tested.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122



ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLET
FINANCIAL/COMPLIANCE
AND CONTRACTED AUDITS

SCOTT A. SEACAT
PERFORMANCE/SUNSET AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee of the Montana State Legislature

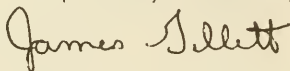
We have examined the Combined Balance Sheet - All Fund Types and Account Groups and the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Fund Types, of the Office of the State Auditor as of June 30, 1982 and for the two fiscal years then ended. Our examination was made in accordance with generally accepted governmental auditing standards for financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the Office of the State Auditor at June 30, 1982 and the results of operations for the two fiscal years then ended, in conformity with generally accepted accounting principles which, except for the change with which we concur, in the combination of funds as described in Note 1 to the financial statements, have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Federal Grant Receipts and Disbursements

presented on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

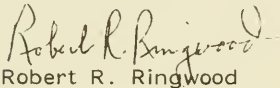
Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James H. Gillett". The signature is written in a cursive style with a large, stylized "J" and "G".

James H. Gillett, CPA
Deputy Legislative Auditor

October 1, 1982

Approved by:

A handwritten signature in dark ink, appearing to read "Robert R. Ringwood". The signature is written in a cursive style with a large, stylized "R" and "R".

Robert R. Ringwood
Legislative Auditor

OFFICE OF THE STATE AUDITOR
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1982

	<u>GOVERNMENTAL FUND TYPES</u>		<u>FIDUCIARY FUND TYPE</u>	<u>ACCOUNT GROUPS</u>
	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Agency Fund</u>	<u>General Fixed Assets</u>
ASSETS				
Cash In Treasury		\$1,252,162	\$ 9,270,668	
Accounts Receivable				
Expenditures Abatements	\$ 6,265			
Dishonored Checks			420	
FYE Cash Cutoff		1,827	10,687,871	
Due From Other Funds	3,774,256	7,074,256		
Expenditure Authority Available to Pay Accrued Obligations	113,609			
Equipment				\$180,864
Library Books				479
Total Assets	<u>3,894,130</u>	<u>8,328,245</u>	<u>19,958,959</u>	<u>181,343</u>
LIABILITIES AND FUND BALANCE				
Accounts Payable	100,985	40,173	5,778,236	
Due to Other Funds		3,774,256	7,074,265	
Due to the Consolidated Entity	3,780,521			
Accrued Expenditures	12,624	3,300,000		
Accountability for Advances			6,686,494	
Accountability for Stale-Dated Warrants			417,114	
Uncleared Collections			692	
Accountability for Cancelled Warrants Clearing			2,158	
Investment in General Fixed Assets				181,343
Total Liabilities	<u>3,894,130</u>	<u>7,114,429</u>	<u>19,958,959</u>	<u>181,343</u>
Fund Balance	<u>-0-</u>	<u>1,213,816</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities and Fund Balance	<u>\$3,894,130</u>	<u>\$8,328,245</u>	<u>\$19,958,959</u>	<u>\$181,343</u>

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE STATE AUDITOR
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	GENERAL FUND			SPECIAL REVENUE FUND		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:						
Insurance Premium Tax and License Fees	\$12,441,031	\$12,747,883	\$306,852	\$ 4,050,000	\$ 3,999,408	\$ (50,592)
Investment Registration and License Fees	600,000	851,052	251,052			
Federal Assistance Service Fees				9,000,000	8,079,709	(920,291)
				129,937	129,854	(83)
Total Revenues	<u>13,041,031</u>	<u>13,598,935</u>	<u>557,904</u>	<u>13,179,937</u>	<u>12,208,971</u>	<u>(970,966)</u>
EXPENDITURES:						
Fiscal Management & Control	360,493	325,099	35,394			
Central Payroll Division	297,611	282,551	15,060	149,937	146,342	3,595
Administrative Division	212,205	202,835	9,370			
Insurance Division	582,866	543,018	39,848			
Securities Division	217,273	197,995	19,278			
Fire & Police Pension Fund				3,300,000	3,300,000	-0-
Fire Pension Fund				750,000	655,083	94,917
Forest Reserve Distributions				9,000,000	8,079,709	920,291
Total Expenditures	<u>1,670,448</u>	<u>1,551,498</u>	<u>118,950</u>	<u>13,199,937</u>	<u>12,181,134</u>	<u>1,018,803</u>
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	<u>11,370,583</u>	<u>12,047,437</u>	<u>676,854</u>	<u>(20,000)</u>	<u>27,837</u>	<u>47,837</u>
OTHER FINANCING SOURCES (USES):						
Prior Year Expenditure Adjustments	2,767	2,767	-0-			
Support From (To) General Fund	<u>(11,373,350)</u>	<u>(12,050,204)</u>	<u>(676,854)</u>			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	(20,000)	27,837	47,837
FUND BALANCE, Retained Earnings, JULY 1, 1981	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,185,979</u>	<u>1,185,979</u>	<u>-0-</u>
FUND BALANCE, Retained Earnings, JUNE 30, 1982	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,165,979</u>	<u>\$1,213,816</u>	<u>\$ 47,837</u>

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE STATE AUDITOR
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL AND SPECIAL REVENUE FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 1981

	GENERAL FUND			SPECIAL REVENUE FUND		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:						
Insurance Premium Tax and License Fees	\$12,400,000	\$12,242,202	\$(157,798)	\$ 3,621,791	\$ 3,724,822	\$ 103,031
Investment Registration and License Fees	350,000	474,417	124,417			
Grants Gifts, Bequests, & Donations		307	307			
Federal Assistance				9,500,000	7,584,827	(1,915,173)
Service Fees				80,000	50,002	(29,998)
Total Revenues	<u>12,750,000</u>	<u>12,716,926</u>	<u>(33,074)</u>	<u>13,201,791</u>	<u>11,359,651</u>	<u>(1,842,140)</u>
EXPENDITURES:						
Fiscal Management & Control	321,350	311,080	10,270			
Central Payroll Division	453,085	450,052	3,033	80,000	26,469	53,531
Administrative Division	169,446	167,157	2,289			
Insurance Division	458,777	457,630	1,147			
Securities Division	129,182	127,805	1,377			
Fire & Police Pension Fund				3,011,791	3,011,791	-0-
Fire Pension Fund				612,012	612,011	1
Forest Reserve Distributions				9,500,000	7,584,827	1,915,173
Total Expenditures	<u>1,531,840</u>	<u>1,513,724</u>	<u>18,116</u>	<u>13,203,803</u>	<u>11,235,098</u>	<u>1,968,705</u>
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	<u>11,218,160</u>	<u>11,203,202</u>	<u>(14,958)</u>	<u>(2,012)</u>	<u>124,553</u>	<u>126,565</u>
OTHER FINANCING SOURCES (USES):						
Prior Year:						
Expenditures Adjustments	184,870	184,870	-0-	(4,000,000)	(4,000,000)	-0-
Revenue Adjustments	1,125,932	1,125,932	-0-	4,000,000	4,000,000	-0-
Support From (To) General Fund	<u>(12,531,010)</u>	<u>(12,516,052)</u>	<u>14,958</u>			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	<u>(2,048)</u>	<u>(2,048)</u>	<u>-0-</u>	<u>(2,012)</u>	<u>124,553</u>	<u>126,565</u>
FUND BALANCE, Retained Earnings, JULY 1, 1980	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,061,426</u>	<u>1,061,426</u>	<u>-0-</u>
Adjustment to Beginning Fund Balance	2,048	2,048	-0-			
FUND BALANCE, Retained Earnings, JUNE 30, 1981	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,059,414</u>	<u>\$ 1,185,979</u>	<u>\$ 126,565</u>

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE STATE AUDITOR
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 1981 AND 1982

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Description of Funds

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS) and were adjusted to comply with generally accepted accounting principles for governmental organizations. The funds and account groups presented and their relationship to the state treasury fund structure are as follows:

General Fund - To account for all financial resources except those required to be accounted for in another fund. This fund corresponds with the general fund within the state treasury fund structure.

Special Revenue Fund - To account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. This fund corresponds with the earmarked revenue fund, the Forest Reserve federal and private grant clearance account and the Central Payroll Operating revolving account.

Agency Fund - To account for assets held by a governmental unit as an agent for individuals, private organizations or other governmental units. This fund corresponds with the central payroll and general warrant revolving accounts and the auditors assignment and state-dated warrant agency accounts within the state treasury fund structure.

General Fixed Account Group - To account for furniture and equipment purchased by the State Auditor's Office. These funds correspond with amounts recorded in the Property Accountability and Management System (PAMS) within the Statewide Budgeting and Accounting System.

b) Basis of Accounting

The preceding financial statements were prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual.

Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt. Revenues are deferred if material and are received before the "normal" time of receipt. Revenues are also deferred for unearned grant and contract receipts.

c) Inventories

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The amount of supplies inventory on hand at June 30, 1982 was immaterial.

d) General Fixed Assets and Depreciation

General fixed asset purchases are recorded as expenditures in the various funds at the time of purchase. (Gifts are recorded in general fixed asset records at fair market value at the time received and assets purchased are recorded at cost.) General fixed assets are not depreciated.

e) Vacation and Sick Leave

Upon termination, qualified employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave. The liability

amount associated with unused accumulated vacation and sick leave at June 30, 1982 is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

2. EMPLOYEES' RETIREMENT SYSTEM

Employees of the Office of the State Auditor are covered by the Public Employees' Retirement System (PERS). Employees contribute 6 percent of gross wages to the retirement system. The state contributes 6.2 percent of gross wages.

The state's policy is to fund accrued pension costs. The Public Employees' Retirement System was actuarially sound at June 30, 1982.

3. GENERAL FUND BALANCE

A. The begining and ending fund balance in the non-consolidated general fund is zero since any balance in the fund is owed to the state general fund at fiscal year-end.

B. The July 1, 1980 fund balance in the General Fund was increased by \$2,048 to adjust for an accounting error occuring prior to fiscal year 1978-79.

4. BUDGET INFORMATION

Appropriations for the Office of the State Auditor are established by the Legislature for each fiscal year of the biennium. Appropriations for office operations are established as fixed amounts. Appropriatons for statutory distributions are established in the amount of the required distribution.

OFFICE OF THE STATE AUDITOR
SCHEDULE OF FEDERAL ASSISTANCE RECEIPTS AND DISBURSEMENTS
 For the Two Fiscal Years Ended June 30, 1982

	<u>Receipts</u>	<u>Disbursements</u>
U.S. Department of Agriculture		
Forest Reserve Funds		
Fiscal Year 1980-81	\$ 7,584,827	\$ 7,584,827
Fiscal Year 1981-82	<u>8,079,709</u>	<u>8,079,709</u>
Total	<u>\$15,664,536</u>	<u>\$15,664,536</u>

AGENCY REPLY



STATE OF MONTANA

OFFICE OF
E. V. "SONNY" OMHOLT

STATE AUDITOR
COMMISSIONER OF INSURANCE
SECURITIES COMMISSIONER
CENTRAL PAYROLL SYSTEM

HELENA, MONTANA 59604

December 23, 1982

RECEIVED

DEC 23 1982

MONTANA LEGISLATIVE AUDITOR

Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Attention: Robert R. Ringwood, Legislative Auditor

Enclosed is the Montana State Auditor's response to the audit of fiscal years 1981 and 1982 conducted by your office.

All of your recommendations have been answered.

Thank you for your helpful suggestions. I appreciate the businesslike manner you and your auditors employed while working in my office.

Sincerely,

A handwritten signature in cursive script that reads "E. V. 'Sonny' Omholt".

E. V. "SONNY" OMHOLT
State Auditor & ex Officio
Commissioner of Insurance
Securities Commissioner
Director, Central Payroll

EVO:ah
Encl:

RECOMMENDATION #1

WE RECOMMEND THE OFFICE OF THE STATE AUDITOR PERIODICALLY RECONCILE THE CENTRAL PAYROLL REVOLVING ACCOUNT.

We concur.

RECOMMENDATION #2

WE RECOMMEND THAT THE OFFICE OF THE STATE AUDITOR:

- A. RECORD INSURANCE PREMIUM TAX REVENUE WHEN RECEIVED.
- B. ACCRUE POLICE/FIREMEN PENSION FUND EXPENDITURES AT YEAR-END IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

Please let the record show that a prior Audit required the present procedure. In this instance we do not disagree or concur, but will conform to recommendations, provided a detailed procedure is provided to assure adequate documentation.

RECOMMENDATION #3

WE RECOMMEND THE STATE AUDITOR DETERMINE ACTUAL COSTS TO PROCESS NON-GENERAL FUND PAYROLL AND DEVELOP A REASONABLE ALLOCATION METHOD FOR RECOVERING COSTS FROM AGENCIES.

We agree that this office should determine actual costs to process non-general fund payroll and develop a reasonable allocation method for recovering costs from agencies. We feel that the same is true for general fund payroll. Currently, in order to interface with the State-

wide Budgeting and Accounting System, labor distribution is processed through the payroll system by Responsibility Center. The Fund (general, non-general) for each Responsibility Center is not identified until that entry is processed by the Statewide Budgeting and Accounting System. During the payroll processing cycle, payroll has no way of knowing whether the Fund is general or non-general. The modified budget request for the current Session for the Payroll, Personnel, Position Control System (PPP System) includes development costs to provide a method of measuring the use of the PPP System by all agencies and charging all agencies for processing payroll, personnel, and position control data as a direct cost. As a result, these direct charges would be allocated to each program within each agency in a logical and equitable manner.

RECOMMENDATION #4

WE RECOMMEND THE OFFICE OF THE STATE AUDITOR COMPLY WITH SECTION 17-3-211, MCA, AND SEEK LEGISLATION ALLOWING A SINGLE DISTRIBUTION OF FOREST RESERVE FUNDS AFTER THE FINAL AMOUNT IS KNOWN.

We concur.

